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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF INVESTIGATION OF
THE COST OF TELECOMMUNICATIONS
ACCESS

Docket No. T-00000D-00-0672

**WORLDCOM, INC.'S STATEMENT ON
PROCEDURAL ISSUES**

WorldCom, Inc., on behalf of its operating subsidiaries ("MCI"), responds to the procedural questions posed by the Administrative Law Judge at the October 14, 2003 Procedural Conference.

I. Bifurcation

The case should be bifurcated. At the Open Meeting at which the Arizona Corporation Commission ("Commission") approved Qwest Corporation's ("Qwest") § 271 application, the Commission instructed Staff to evaluate expeditiously Qwest's access charges. Investigation and adjustment of Qwest's access charges is urgent because Qwest will likely be entering the Arizona long distance market in a few months. Given Qwest's dominant role as a provider of access, it is imperative that Qwest's access charges be adjusted prior to its entrance into the long distance market. Consolidating Qwest's access charge case with access charge cases of other incumbent local exchange carriers ("ILECs") or competitive local exchange carriers ("CLECs") complicates and delays the process. For instance, each ILEC and CLEC access charge structure will need to be reviewed individually. Unlike Qwest's access charges, time is not of the essence to review the other ILECs' or CLECs' access charges. As a result, this matter should be bifurcated, with Qwest's access charges the only issue in Phase I.

Another reason for bifurcation relates to the most recent Qwest rate case and its current amended price regulation plan. Qwest is presently regulated under a price regulation plan that it describes as a first step to move away from traditional utility-style regulation.¹ Qwest has proposed to continue evolution of its price regulation plan in Arizona in its Qwest Renewed Price Regulation Plan filed in Docket No. T-01051B-03-0454 on September 26, 2003.² In the last Qwest rate case, Qwest and Staff agreed as part of the settlement of that case (and the adoption of

¹ See Notice of Filing Amended Renewed Price Regulation Plan, in Docket No. T-01051B-03-0454, entitled *In the Matter of Qwest Corporation's Filing Amended Renewed Price Regulation Plan*, at p. 1.

² *Id.*

1 a price cap plan) that further reductions to access would take place during any subsequent term of
2 the price cap plan “with the objective of obtaining parity with interstate switched access rates.”
3 Settlement Agreement, Attachment A, Section 3(d), page 3 (Docket No. T-01051B-99-0105).
4 MCI supports this goal, although it would rather see access charges be reduced to “economic
5 cost.” However, setting Qwest’s switched access rates for transport and switching at the same
6 rates it charges for interstate switched access services is a step in the right direction and furthers
7 the goal of the Settlement Agreement.³ While this interstate parity goal for Qwest access charges
8 has specifically been agreed to by Qwest and the Staff, it has never been a stated goal for other
9 ILECs’ or CLECs’ access charges and provides further reason for bifurcation. To MCI’s
10 knowledge, no other ILEC or CLEC in Arizona is operating under a price regulation plan similar
11 to that under which Qwest is presently operating. Thus, the existence of Qwest’s price regulation
12 plan, and its request to extend the plan with certain modifications, is a factor that mandates
13 bifurcation. Qwest is allowed to flexibly price certain competitive services and provides certain
14 wholesale services under a price cap regime that is not authorized for other ILECs or CLECs.
15 Qwest’s present price regulation plan in Arizona expires in April 2004. Because Qwest has
16 requested that its price regulation plan be extended with certain modifications, it is appropriate to
17 consider access reform as part of the review of its proposed price regulation plan since some of
18 the modifications of the proposed plan allow Qwest to earn more revenue by authorizing 1.) a
19 revenue cap and eliminating the current indexed cap and the productivity/inflation adjustment
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24 ³ Qwest uses the percentage of interstate usage (“PIU”) to allocate switched access traffic
25 between its interstate and intrastate services. Qwest uses this same PIU to allocate special
26 access transport for traffic that is transported on direct office trunks (“DEOTs”).
Therefore, true parity would require an adjustment of both switched access rates and
special access transport rates.

1 mechanism, for basket 1 services, 2.) the elimination of a revenue cap for Basket 3 services, and
2 3.) Qwest to create a competitive sub-basket for basket 2 wholesale services wherein Qwest could
3 charge higher market rates rather than TELRIC rates for the same services.⁴

4
5 Finally, in Iowa on October 14, 2003, Qwest filed "Additional Comments of Qwest
6 Corporation" in a docket relating to "Intrastate Access Service Charges" wherein Qwest stated:

7 Qwest believes the FCC is headed toward a bill and keep regime for the
8 exchange of most, if not all, intercarrier traffic, including switched access. To the
9 degree that Iowa lags behind this progress, the Iowa consumers will lag behind the
benefits available from fair and balance competition.

10 * * *

11 Qwest generally believes that intrastate access rates should be reduced to the levels
of their interstate counterparts on a revenue neutral basis.⁵

12 Qwest has clearly stated in Arizona and Iowa that its goal is to reduce intrastate access
13 rates to levels of their interstate counterparts to ensure the fair and balanced competition that will
14 benefit consumers, albeit on a revenue neutral basis. MCI is unaware of any such commitment
15 from other ILECs or CLECs operating in Arizona. Therefore, for other ILECs and CLECs, the
16 issue of whether to reduce their intrastate access charges to their interstate counterparts, even on a
17 revenue neutral basis, is likely a contested issue that would broaden the scope of Phase 1;
18 whereas for Qwest, this threshold issue should be uncontested.

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20 II. Schedule

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22 The AT&T/Staff proposed schedule is acceptable.

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24 ⁴ Compare, for example, Qwest's proposed market-based rates to the ordered TELRIC
rates for services found in the various versions of Exhibit A to Qwest's Arizona SGAT
filed with this Commission.

25 ⁵ See Additional Comments of Qwest Corporation filed in Docket No. RU-03-11 entitled
26 *Intrastate Access Service Charges* (199-IAC 22.14(2) "(D)" (a)) before the Iowa Utilitied
Board, at pp. 1 and 3.

1 III. Rate Case Questions

2 Implementation of reduced access charges could be done as part of a revenue neutral rate
3 adjustment. As noted above, the Qwest renewed price regulation plan (Docket No: T-01051B-03-
4 0454) may be the appropriate docket to approve such a revenue neutral plan. The current Qwest
5 price regulation plan includes an annual access charge reduction that is offset by an increased
6 revenue cap for competitive services (*i.e.* basket 3). Those access reductions have been
7 completed. Qwest has proposed no further access reductions in its renewed price regulation plan.
8 Moreover, there is no indication that Qwest would voluntarily reduce access rates if its renewed
9 price regulation plan were adopted. The same structure established in its initial price regulation
10 plan should be used for additional access charge reductions resulting from this proceeding. This
11 access charge proceeding could determine the new access charge rate then that new rate should be
12 factored in as part of the renewed price regulation plan. However, in order to complete such an
13 assessment, this proceeding would have to be completed by the end of 2003 in order to allow
14 Qwest to factor a new access charge rate into its renewed price regulation plan or its current price
15 regulation plan. Such an accelerated determination of access rates is not required for other ILECs
16 or CLECs since they do not have a price regulation plan that is set to expire in April 2004.

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20 The question of whether a rate case is needed will depend on a review of all rate changes
21 proposed by Qwest in the renewed price regulation plan case. *US West II* confirms that fair value
22 must be considered in rate cases, but gives the ACC broad discretion in how much weight to give
23 fair value in setting rates for competitive services. *See US West Comm. v. Ariz. Corp. Comm.*, 201
24 Ariz. 242, 34 P.3d 351 (2001). Rate of return analysis is still proper in setting rates for monopoly
25 services. *Id.* at 246, 34 P.3d at 355.
26

Whether a rate case is needed and the nature of such a case will depend on the answers to these questions:

Is the fair value determination in the original price regulation plan still valid?

Are the particular rate design adjustments proposed by Qwest in its renewed price regulation plan for competitive or monopoly services?

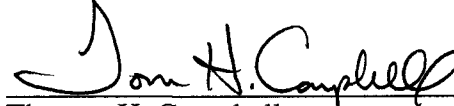
What is the total potential impact of all the rate design changes (*i.e.* will Qwest likely realize increased revenues)?

What assurances does the Commission have that individual rate changes for competitive services are fair and reasonable?

If a new fair value determination is deemed necessary, Qwest should file fair value materials promptly so that the renewed price regulation plan or other price regulation plan can be adopted by the April expiration of the current price regulation plan.

Respectfully submitted this 3rd day of November, 2003.

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